



**NEW MEXICO RETIREE  
HEALTH CARE AUTHORITY**

**FINANCIAL STATEMENTS  
AND  
REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

**June 30, 2012**

atkinson

PRECISE. PERSONAL. PROACTIVE.

New Mexico Retiree Health Care Authority

**OFFICIAL ROSTER**

June 30, 2012

**Board of Directors**

Alfredo Santistevan, Board Chair	Designee of NM State Treasurer
Tom Sullivan, Vice-Chairman	Superintendents' Association of NM
Joe Montano, Secretary	NM Association of Educational Retirees
Marilyn Brown*	NEA-NM, Classroom Teachers Association and NM Federation of Educational Employees
Jan Goodwin	Educational Retirement Board
Elizabeth Jeffreys	Active State Employee Office of the General Counsel Human Services Department
James B. Lewis	NM State Treasurer
Wayne Johnson	NM Association of Counties
Olivia Padilla-Jackson	NM Municipal League
Jeff Varela	Retired Public Employees of New Mexico
Kurt Weber	Public Employees Retirement Association
Terry Linton**	Governor appointee

**Staff**

Wayne Propst***	Executive Director
Mark Tyndall****	Deputy Director
Sara Brownstein, CFE*****	Fiscal Director

\*Resigned effective July 2012, new member effective September 2012 Karen Suther.

\*\*Appointment effective January 2012

\*\*\*Resigned effective June 2012

\*\*\*\*Executive Director effective September 2012

\*\*\*\*\*Resigned effective October 2012

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CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

ATKINSON & CO. LTD.  
6501 AMERICAS PKWY NE  
SUITE 700  
ALBUQUERQUE, NM 87110

T 505 843 6492  
F 505 843 6817

ATKINSONCPA.COM

PO BOX 25246  
ALBUQUERQUE, NM 87125

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Mr. Hector H. Balderas  
New Mexico State Auditor  
and  
The Board of Directors  
New Mexico Retiree Health Care Authority  
Albuquerque and Santa Fe, New Mexico

We have audited the accompanying Statement of Plan Net Assets and Statement of Changes in Plan Net Assets of the New Mexico Retiree Health Care Authority (NMRHCA or the Authority) as of and for the year ended June 30, 2012 as listed in the table of contents. We have also audited the Combining Schedules of Plan Net Assets by Functional Activity and Changes in Plan Net Assets by Functional Activity and the Schedule of Revenues and Expenses – Budget and Actual, presented as supplementary information as of and for the year ended June 30, 2012 as listed in the table of contents. These financial statements and schedules are the responsibility of the New Mexico Retiree Health Care Authority’s management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

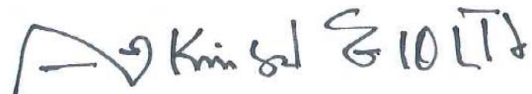
As discussed in Note A, the financial statements of the New Mexico Retiree Health Care Authority are intended to present the net assets and changes in net assets of only that portion of the fiduciary activities of the State of New Mexico that is attributable to the transactions of the New Mexico Retiree Health Care Authority. They do not purport to, and do not, present fairly the financial position of the State of New Mexico as of June 30, 2012, and the changes in financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the fiduciary activities of the New Mexico Retiree Health Care Authority as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles. In addition, in our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the functional activities of the NMRHCA as of June 30, 2012, the respective changes in financial position thereof and the respective budgetary comparisons for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2012, on our consideration of NMRHCA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the fiduciary financial statements. Such information, although not a part of the fiduciary financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the fiduciary financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the fiduciary financial statements, and other knowledge we obtained during our audit of the fiduciary financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the fiduciary financial statements, the combining and individual fund financial statements, and the budgetary comparisons. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the fiduciary financial statements taken as a whole.



**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
November 21, 2012

New Mexico Retiree Health Care Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)**

**REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2012

The New Mexico Retiree Health Care Authority (NMRHCA or the Authority) offers the following overview and analysis of the financial position of the Authority and the results of operations for the year ending June 30, 2012. As of this date, the Authority provided health coverage for approximately 46,700 retirees and their dependents. Data for FY 2011 is provided for comparative purposes. The financial statement elements do not differ greatly from those presented in prior years.

**FINANCIAL REPORTING REQUIREMENTS**

- Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*, as adopted by the Authority July 1, 2001. It requires that financial statements include both government-wide financial statements and fund statements and that operations be accounted for in a single trust fund of the fiduciary type.
- GASB Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*, as adopted by the Authority for the year ended June 30, 2007. Under this provision, the Authority is considered a cost sharing multi-employer arrangement equivalent to a trust. It further requires certain detailed information in its financial statements, including disclosure of unfunded liabilities to help users to assess changes to the funded status of the Authority. A GASB 43 analysis is performed by NMRHCA biannually. The most recent analysis was for FY 2012.

**CONDENSED STATEMENT OF ASSETS AND LIABILITIES**

The Authority's assets, liabilities and net assets can be summarized as follows as of June 30, 2012 and 2011 (please note that the Authority has no long-term liabilities):

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 9,892,997	\$ 17,693,534
Accounts receivable	13,012,349	14,838,254
Buy-in obligation receivable	984,505	1,295,469
Other current assets	1,641,139	1,491,540
Investments	229,634,320	213,379,925
Property and equipment, net	31,275	41,452
Accrued interest receivable	-	4,573
Due from other governments	<u>2,599</u>	<u>1,553</u>
Total assets	<u>\$ 255,199,184</u>	<u>\$ 248,746,300</u>



New Mexico Retiree Health Care Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
(UNAUDITED)**

**REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2012

**CONDENSED STATEMENT OF ASSETS AND LIABILITIES – CONTINUED**

	<u>2012</u>	<u>2011</u>
Reserve for loss and loss adjustment	\$ 17,205,000	\$ 13,743,000
Deferred revenue	2,960,694	6,375,063
Other current liabilities	<u>11,663,619</u>	<u>15,244,698</u>
<b>Total liabilities</b>	<b>31,829,313</b>	<b>35,362,761</b>
Net assets:		
Invested in capital assets	31,275	41,452
Held for health care benefits	<u>223,338,596</u>	<u>213,342,087</u>
<b>Total plan net assets</b>	<b><u>223,369,871</u></b>	<b><u>213,383,539</u></b>
<b>Total liabilities and plan net assets</b>	<b><u>\$ 255,199,184</u></b>	<b><u>\$ 248,746,300</u></b>

**CONDENSED STATEMENT OF CHANGES IN NET ASSETS**

	<u>2012</u>	<u>2011</u>
Contributions and other revenue	\$ 224,766,379	\$ 213,022,312
Investment income	(4,774,791)	33,786,044
Pension tax revenue	19,686,303	17,898,485
Federal grants	<u>3,355,344</u>	<u>-</u>
<b>Total additions</b>	<b>243,033,235</b>	<b>264,706,841</b>
All operating expenses relating to premiums and claims	<u>233,046,903</u>	<u>218,880,162</u>
<b>Change in plan net assets</b>	<b><u>\$ 9,986,332</u></b>	<b><u>\$ 45,826,679</u></b>

New Mexico Retiree Health Care Authority

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
(UNAUDITED)**

**REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2012

The breakout of contributions from retirees, employers and employees was as follows:

	<u>2012</u>	<u>2011</u>
Retirees	\$ 103,730,561	\$ 96,816,526
Employer	72,722,615	66,707,635
Employee	36,361,335	33,354,068
Employer buy-ins interest portion	<u>85,674</u>	<u>105,559</u>
	<u>\$ 212,900,185</u>	<u>\$ 196,983,788</u>

Revenues from employer buy-ins are accrued in full upon entry into the Authority. There were no employers who entered the plan during 2012.

**COMMENTARY**

NMRHCA plan net assets increased from \$213.4 million in FY 2011 to \$223.4 million in FY 2012.

- The cash balance decreased by \$7.7 million. The cash balance decrease is primarily due to transferring funds into the SIC account.
- Investment holdings increased by \$16.2 million (7.5%). However, cash transfers totaled approximately \$21 million. The cause was the stock market losses for the category performance of Large Cap Active, Core Bonds, Large Cap Index, and Non US Developed, Non US Emerging and Mid/Small Cap categories.
- Outstanding current liabilities decreased by \$3.3 million in FY 2012. The decrease was primarily due to a reduction in the deferred revenue received through the early retiree reinsurance program.
- Expenditures relating to premiums and claims increased by \$22.5 million, or 7.8%. The increase was due to an increase in NMRHCA health care claim costs and retiree population growth.
- The estimated Incurred but Not Reported (IBNR) amount increased by \$3.5 million (34%) in FY 2012. The increase was due to the inability, in FY 2010, to calculate an IBNR amount due to the change of PBM vendor effective July 1, 2011.

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
(UNAUDITED)**

**REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2012

**BUDGETARY ANALYSIS**

The FY 2012 approved budget was \$239.6 million. It assumed a contractual services budget of \$234.7 and \$2.7 in other financing sources. Actual expenditures were \$227.2 million for contractual services and \$2.4 million in other financing sources. Actual revenues were \$243 million. Highlights are the following:

- No increase in budget authority was requested.
- There was a \$10 million positive differential between expenditures and revenue.
- Program support was \$294,950 under budget.

**CAPITAL ASSET ACTIVITY**

The Authority acquired no new capital assets for FY 2012. Capital assets consist mainly of computers and other equipment.

**CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS**

The New Mexico Retiree Health Care Act was enacted in Sections 10-7C-1 through 10-7C-19 NMSA 1978, for the purpose of providing comprehensive group health insurance coverage for persons who have retired from certain public service in the State and their eligible dependents. The Authority offers both pre Medicare and Medicare plans to eligible retirees, as well as ancillary coverage including dental, vision, and life insurance. The Retiree Health Care Act provides that the benefits offered to retired public employees may be modified, diminished, or extinguished by the Legislature, and that the Act does not create any contract, trust or other rights to public employees for health care benefits. Financing is provided through the setting of premiums for retirees by the NMRHCA Board of Directors and the allocation of governmental revenue streams by the Legislature on a “pay as you go” basis.

NMRHCA administers the New Mexico Retiree Health Care Act. It has a fund base comprised of active employee payroll deductions, participating employer contributions, monthly premium contributions of enrolled participants, investment income, and amounts distributed annually from the Taxation Administration Suspense Fund (“TAA Fund”).

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
(UNAUDITED)**

**REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2012

**CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS – CONTINUED**

In FY 2012, the NMRHCA enacted the second phase-in of a significant increase in the employer/employee contribution revenue stream. The contribution levels for FY 12 were 1.834% for the employer and 0.917% for the employee. As a result of legislation passed during the 2009 session and signed by the Governor, over the next two years, the employer/employee contributions will increase to 2% for the employer and 1% for the employee.

In July 2011, the NMRHCA Board of Directors approved moderate changes in the medical plans. Beginning in January of 2012, premiums for the pre-Medicare plans will be increased by 8% and the Medicare Supplement plans will be increased between 0% and 6%. Medicare Advantage premiums were increased by an average of 2%, due in part to changes mandated by the new national health reform legislation. NMRHCA will no longer offer basic life insurance for new participants who join NMRHCA after December 31, 2011. However, the Authority will continue to offer a comprehensive life insurance policy to individuals who retire after that date.

Based on the GASB Statement 43 valuation of FY 2012, and assuming that the NMRHCA Fund is an equivalent arrangement to an irrevocable trust and, hence using a discount rate of 5%, the unfunded actuarial accrued liability (“UAAL”) has been calculated to be approximately \$3.6 billion. The Annual Required Contribution (ARC) is approximately \$353.6 million. Both the UAAL and the ARC are slightly higher than the 2010 evaluation. An underlying reason for this is that a majority of the Public Employees Retirement Association (PERA) and Educational Retirement Board (ERB) active employees have incurred an additional two years of service credit and the baseline of health care costs used to project liabilities forward has increased since 2010. Also, a significant portion additional liability is the result of interest accrued on the \$3.3 billion unfunded liability from 2010.

The annual solvency analysis performed by Segal actuaries in June 2012 indicates NMRHCA is solvent at least through 2029; a marked improvement considering just five years ago calculations indicated NMRHCA could be insolvent as early as 2014. Insurance plan design changes, premium subsidy adjustments, the increases in the Employer/Employee revenue stream and suspense fund contribution, increasing principal amounts of investments, and an 8% market trend annual premium adjustment were the primary causes of this improved outlook.

**MANAGEMENT'S DISCUSSION AND ANALYSIS – CONTINUED  
(UNAUDITED)**

**REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2012

**CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS – CONTINUED**

The Board continues to look for additional opportunities to further strengthen the financial standing of the Authority including increasing years of service requirements and tapping into other revenue sources.

*Future Challenges*

Looking ahead, there are a number of challenges facing NMRHCA, including possible State revenue shortfalls, the lack of pre-funding of future retiree medical expenditures, increasing health care costs, and the uncertainty of the impact of national health reform.

*State Revenue Problems*

Continuing tax revenue shortfalls in New Mexico could have a significant and negative impact on the solvency and financial position of the Authority in the intermediate term. For example, historically the Authority has relied on a 4% growth assumption in payroll for its long-term financial projections. It is unlikely that New Mexico will see any growth in public payroll for FY 2013 or in the foreseeable future, and it is possible that payroll growth will be negative. A flat or declining payroll growth could rapidly reverse the gains the Authority, Legislature and Governor have made in recent years to stabilize the Authority and preserve a retiree health care benefit for current and future retirees. Despite the 2010 legislated changes in the Employer/Employee contribution levels and the many steps taken to increase cost sharing with the retirees, it will be challenging to maintain the rolling fifteen year solvency goal of the Board of Directors. Continued market fluctuations could also negatively impact both the Authority's solvency projections and UAAL.

Further information may be obtained from the New Mexico Retiree Health Care Authority at 4308 Carlisle, NE, Suite 104, Albuquerque, New Mexico 87107.

## New Mexico Retiree Health Care Authority

**STATEMENT OF PLAN NET ASSETS**

June 30, 2012

**ASSETS**

Short-term investments with State Treasurer	\$ 9,892,997
Receivables	
Accounts receivable - employers, employees and participants	10,994,044
Accounts receivable - rebates and Medicare Part D	2,018,305
Buy-in obligation receivable	984,505
Pension tax receivable	1,640,525
Due from other governments	<u>2,599</u>
Total receivables	15,639,978
Prepaid expenses	614
Long-term investments with State Investment Council	
Fixed income core bonds	86,755,599
Large cap - active	31,909,576
Large cap index	31,331,006
Non US equities	30,037,992
Emerging markets	27,067,713
Mid/small cap	<u>22,532,434</u>
Total investments	229,634,320
Capital assets	
Furniture and equipment	139,506
Less accumulated depreciation	<u>(108,231)</u>
Total capital assets	<u>31,275</u>
Total assets	<u>\$ 255,199,184</u>

**LIABILITIES**

Accounts payable	\$ 11,543,940
Payroll liabilities	56,512
Compensated absences	63,167
Deferred revenue	2,960,694
Reserve for loss and loss adjustment expense	<u>17,205,000</u>
Total liabilities	31,829,313
Commitments and contingencies	-
Invested in capital assets	31,275
Plan net assets held in trust for other post employment benefits, restricted	<u>223,338,596</u>
	<u>223,369,871</u>
Total liabilities and plan net assets	<u>\$ 255,199,184</u>

The accompanying notes are an integral part of this financial statement.

## New Mexico Retiree Health Care Authority

**STATEMENT OF CHANGES IN PLAN NET ASSETS**

For the year ended June 30, 2012

**ADDITIONS**

Contributions	
Retirees	\$ 103,730,561
Employer	72,722,615
Employees	36,361,335
Employer buy-ins interest portion	<u>85,674</u>
Total contributions	212,900,185
Investment earnings	
Interest on short-term investments with State Treasurer	30,814
Net decrease in fair value of investments	<u>(4,805,605)</u>
Total net investment earnings	(4,774,791)
Other additions	
Pension tax revenue	19,686,303
Medicare Part D and rebates	11,651,504
Federal grants	3,355,344
Subrogation, refunds and miscellaneous	<u>214,690</u>
Total other additions	<u>34,907,841</u>
Total additions	243,033,235
<b>DEDUCTIONS (ADDITIONS)</b>	
Premiums and claims	227,200,526
General and administrative expenses	2,374,200
Depreciation expense	10,177
Losses and loss adjustment accrual increase	<u>3,462,000</u>
Total deductions	<u>233,046,903</u>
Change in plan net assets	9,986,332
Plan net assets, restricted, beginning of year	<u>213,383,539</u>
Plan net assets, restricted, end of year	<u>\$ 223,369,871</u>

The accompanying notes are an integral part of this financial statement.

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2012

**NOTE A – FINANCIAL REPORTING ENTITY**

The New Mexico Retiree Health Care Authority (NMRHCA or the Authority) was formed February 13, 1990, under the New Mexico Retiree Health Care Act (the Act) of New Mexico Statutes Annotated (NMSA 1978), as amended, to administer the Retiree Health Care Fund (10-7C-1-19 NMSA 1978) which was created to provide comprehensive group health insurance coverage for individuals (and their spouses, dependents and surviving spouses) who have retired or will retire from public service in New Mexico. The New Mexico Retiree Health Care Act created a governing Board composed of 11 members (a twelfth member was added through an amendment). The membership composition is as follows:

1. One member who is not employed by or on behalf of, or contracting with, an employer participating in or eligible to participate in the New Mexico Retiree Health Care Act (10-7C-1 to 10-7C-19 NMSA 1978), and who shall be appointed by the Governor to serve at the pleasure of the Governor;
2. The education retirement director or the education retirement director's designee;
3. One member to be selected by the Public School Superintendent's Association of New Mexico;
4. One member who shall be a teacher who is certified and teaching in elementary or secondary education to be selected by a committee composed of one person designated by the New Mexico Association of Classroom Teachers, one person designated by the National Education Association of New Mexico and one person designated by the New Mexico Federation of Teachers;
5. One member who shall be an eligible retiree of a public school and who shall be selected by the New Mexico Association of Retired Educators;
6. One member who shall be an eligible retiree of an institution of higher education participating in the Retiree Health Care Act and who shall be selected by the New Mexico Association of Retired Educators (the institutions of higher education do not currently have the requisite number of participants for board representation);
7. The executive secretary of the Public Employees' Retirement Association or the executive secretary's designee;
8. One member who shall be an eligible State government retiree and who shall be selected by the Retired Public Employees of New Mexico;
9. One member who shall be an elected official or employee of a municipality participating in the New Mexico Retiree Health Care Act to be selected by the New Mexico Municipal League;



**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE A – FINANCIAL REPORTING ENTITY – CONTINUED**

10. One member who shall be an elected official or employee of a county participating in the Retiree Health Care Act to be selected by the New Mexico Association of Counties. In March 2005, the Association proved it has the requisite number and a seat on the Board was granted;
11. The State Treasurer or the State Treasurer’s designee; and
12. One member who shall be a classified State employee selected by the Personnel Board in response to statutory amendment.

Every member of the Board serves at the pleasure of the party or parties that selected that member. The Board elects from its membership a president, vice president and secretary.

The Board may enter into contracts or arrangements with consultants, professional persons or firms as may be necessary to carry out the provisions of the New Mexico Retiree Health Care Act.

Other legal duties of the Board are defined by Section 10-7C-7 of the New Mexico Retiree Health Care Act.

Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, establishes the standards for defining and reporting on the financial entity. GASB 14 defines the financial reporting entity as consisting of the primary government organization for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. A primary government is any State government or general-purpose local governments, consisting of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments, and offices that are not legally separate are, for financial reporting purposes, part of the primary government. NMRHCA is an independent agency, not under executive control, however it is part of the primary government of the State of New Mexico, and its financial data should be included with the financial data of the State. The NMRHCA does not follow any pronouncements issued by the Financial Accounting Standards Board after November 30, 1989.

Because NMRHCA is a self-funded mainly self-insured entity pursuant to Section 10-7C, NMSA 1978, NMRHCA is not construed to be transacting insurance activity otherwise subject to the laws of the State of New Mexico that regulate insurance companies and therefore, not subject to minimum statutory reserve requirements.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE A – FINANCIAL REPORTING ENTITY – CONTINUED**

Employer and employee contributions to NMRHCA total 2.751% for non-enhanced retirement plans and 3.438% of enhanced retirement plans of each participating employee's salary as required by 10-7C-15 NMSA 1978. The contributions are set by legislation and are not based on an actuarial calculation. The Legislature periodically reviews the contribution rates pursuant to 10-7C-15 NMSA 1978. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer's participation in the NMRHCA. New increased rates became effective starting on July 1, 2010 and will increase each year until reaching new maximum amounts of 2% for employer and 1% for employee.

Current retirees are required to make monthly contributions for individual basic medical coverage. The Board may designate other plans as "optional coverages." See section 10-7C-13.

The Authority has no component units.

**NOTE B – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Basis of Accounting

NMRHCA uses the accrual basis of accounting required by GASB 43. The economic resource measurement focus is used for all assets (both financial and capital), liabilities, revenues, expenses, gains and losses. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recorded at the time liabilities are incurred. Employer contributions to the Authority are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

2. Program Revenue

Program revenue shown on the accompanying statement of changes in plan net assets consists primarily of contributions received from retirees, employers and employees including amounts received and accrued from employer buy-ins. Operating revenue is distinguished from non-operating revenue by considering the core purpose of NMRHCA to provide comprehensive group health insurance. As a result, contributions received from participants are considered operating revenues.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE B – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

3. Short-Term Investments – State Treasurer

Short-term investments with the State Treasurer include NMRHCA's pro rata share of liquid investments pool held by the New Mexico State Treasurer. Deposits with the State Treasurer are required to be collateralized at a minimum level of 50%. The State Treasurer issues separate financial statements, which disclose the collateral pledged to secure these deposits and the market value of purchased investments. Non-interest bearing bank accounts are fully insured through December 31, 2012. The only checking account is a zero balance lock box depository at the State Fiscal Agent and monies are transferred daily to the State Treasurer.

4. Property and Equipment

Acquisitions of property and equipment and improvements and replacements of equipment with an initial individual cost of at least \$5,000 beginning in 2006 (per Section 12-6-10 NMSA 1978) and subsequent, and \$1,000 for years prior to 2006 and an estimated useful life in excess of one year are capitalized at cost. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets. The useful lives are ten years for furniture and office equipment and three to seven years for computer equipment.

5. Income Taxes

NMRHCA provides an essential governmental function to its participants as described in Section 115 of the Internal Revenue Code and therefore considers the organization exempt from federal income taxes pursuant to the Code.

6. Budgetary Process and Budgetary Basis of Accounting

The Authority prepares its budget on the accrual basis. Depreciation and investment income are not budgeted. An operating budget is submitted annually for approval to the Budget Division of the Department of Finance and Administration and reviewed by the Legislative Finance Committee. The Authority submits three budgets reflecting the benefit, administration and discount prescription drug program funds. The legal level of budgetary control is at the functional level. Budget Amendment Requests (BAR) must be reviewed by the Department of Finance and Administration. Administrative line item expenditures may legally exceed amounts budgeted; however, the total budget category expenditures may not legally exceed approved budget category amounts. One BAR was filed during 2012 reallocating expenditures from contractual services to other costs.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE B – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

7. Accounts Receivable, Buy-Ins and Deferred Revenue

Accounts receivable derived from employers and participants consist of amounts due from employers for contributions relating to payrolls paid prior to June 30, 2012 and amounts due from retirees for monthly premiums. Deferred revenues consist of advance premiums paid by retirees prior to the coverage month and a federal advance as part of the Patient Protection and Affordable Care Act (PPACA).

Qualified employers previously declining participation may elect to buy-in under 10-7C-1 NMSA 1978. Upon meeting requirements and approval, the organization will pay a determined amount to compensate the Authority and other participants for prior periods of nonparticipation and for additionally incurred liabilities. Payments can be lump sum or on the installment method for up to thirteen years and are in addition to regular monthly contributions.

8. Restricted Plan Net Assets

Net assets and State of New Mexico pension tax revenue are restricted to provide for payment of claims and premiums in future years and to continue to provide health benefits to eligible retirees. All fiduciary funds revenue, including pension tax, is held in trust for qualified retirees. These funds are not available to the State of New Mexico for appropriation for other purposes. The restrictions on the plan net assets are deemed to be legally enforceable under GASB standards. When restricted and unrestricted resources are available for the same purpose, it is the policy of NMRHCA to first apply the unrestricted resources.

9. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the actuarial evaluations of value of reported amounts and the probability of occurrence of future events. These estimates are subject to continual change.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE B – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

10. OPEB Actuarial Valuation

The Authority's Post Retirement Employee Benefits (OPEB) program actuarial valuation was conducted by the Segal Company, Phoenix, Arizona, as of June 30, 2012. The valuation was performed in accordance with GASB Statement No. 43 and 45 requirements at the request of the Authority. The valuation is conducted every two years.

**NOTE C – GASB NO. 43 IMPLEMENTATION**

The Government Accounting Standards Board (GASB) has issued Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*. GASB 43 requires uniform reporting standards for OPEB plans, and is applicable to stand alone financial reports of OPEB plans established as trusts. The standard applies to the New Mexico Retiree Health Care Authority, who administers the New Mexico Retiree Health Care Act for participating public employees and employers for the State of New Mexico and issues plan financial statements thereon. NMRHCA implemented GASB Statement No. 43 for the year ended June 30, 2007.

The legislation establishing NMRHCA specifically did not intend to create formal trust relationships among the participating employees, retirees, employers and the Authority administering the New Mexico Retiree Health Care Act Section 10-7C-1 through 19 NMSA 1978. However, the substantive plan created by the Act contains all requisite elements to be considered as the equivalent of a trust arrangement. These elements include irrevocable contributions to the plan, plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan, and plan assets are legally protected from creditors of employers or the plan administrator. Additionally, there is no provision for any participating government entity to withdraw membership and all risks and costs including benefit costs are shared and are not attributed individually to employer, and a single contribution rate applies to employers. The Authority received a legal opinion that the manner of legal organization of the Authority is substantially equivalent to a trust. As such, this requires the Authority to apply GASB 43 as a multi-employer cost sharing plan. The net assets of the Authority are reported as restricted per GASB 46 and 10-7-C-14 NMSA 1978.

New Mexico Retiree Health Care Authority

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE C – GASB NO. 43 IMPLEMENTATION – CONTINUED**

As a multi-employer cost sharing plan, the Authority presents two required financial statements and two schedules of historical trend information. The financial statements generally are the same as the fiduciary fund financial statements previously issued. There are requirements for frequency and timing of actuarial valuations, as well as actuarial methods and assumptions that are acceptable for financial reporting. The Authority will obtain actuarial valuations at least biannually and a single actuarial valuation covers all plan members. The Authority will make various disclosures including the schedules of funding progress and required employer contributions presented as required supplementary information. Available information in relation to plan membership is as follows for June 30, 2012 and 2010.

	<u>June 30, 2012</u>	<u>June 30, 2010</u>
Plan membership:		
Current retirees and surviving spouses	32,689	29,935
Inactive and eligible for deferred benefit	13,318	10,861
Current active members	<u>90,083</u>	<u>95,513</u>
	<u>136,090</u>	<u>136,309</u>
Active membership:		
State general	16,400	19,371
State police and corrections	1,510	1,801
Municipal general	18,648	18,747
Municipal police	3,194	3,233
Municipal FTRE	1,864	1,810
ERB	<u>48,467</u>	<u>50,551</u>
	<u>90,083</u>	<u>95,513</u>

New Mexico Retiree Health Care Authority

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2012

NOTE C – GASB NO. 43 IMPLEMENTATION – CONTINUED

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
June 30, 2006	\$ 154,538,668	\$ 4,264,180,967	\$ 4,109,642,299	3.62%	\$ 4,073,731,873	101%
June 30, 2008	170,626,271	3,116,915,900	2,946,289,629	5.47%	4,020,508,902	73%
June 30, 2010	176,922,935	3,523,664,871	3,346,741,936	5.02%	4,001,802,240	84%
June 30, 2012	227,487,895	3,915,114,104	3,687,626,209	5.81%	3,877,827,061	95%

Valuation date June 30, 2012

Actuarial cost method Entry age normal, level percent of pay

Amortization method 30-year open-ended amortization, with the initial payment determined as if future payments would theoretically increase each year on a level percent of pay basis

Remaining amortization period 30 years as of June 30, 2012

Asset valuation method The actuarial value of assets is the market value of assets

Actuarial assumptions:

Discount rate 5.00%

Projected payroll increases 4.00%

Health care cost trend rate:

Prescription drug & medical

(under age 65, age 65 and over) 8% from July 1, 2009 to July 1, 2018, decreasing by 0.5% for each year until it reaches an unlimited rate of 5%

Note Schedule of funding progress is based on healthcare laws and regulations existing at June 30, 2012.

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

Plan Year Beginning	Annual Required Contributions	Actual Contributions Employers	Percentage Contributed
July 1, 2006	\$ 392,591,254	\$ 82,703,326	21.1%
July 1, 2007	275,517,523	94,059,722	34.1%
July 1, 2008	286,538,244	96,816,528	33.8%
July 1, 2009	297,999,753	112,079,300	37.6%
July 1, 2010	309,919,743	105,624,100	34.1%
July 1, 2011	353,657,828	135,388,449	29.4%

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE C – GASB NO. 43 IMPLEMENTATION – CONTINUED**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of findings progress, presented as required supplementary information following the notes to the financial statements, will present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contribution (ARC), an amount that will be actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years using an open ended amortization.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of benefits does not incorporate potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

**GASB Statement 45**

GASB Statement 45 requires accrual accounting for employers for retiree welfare benefits, principally healthcare. NMRHCA has adopted GASB Statement No. 45 for the year ended June 30, 2009 and has implemented it under the multi-employer cost sharing plan conditions.

Participating employers, including the NMRHCA, upon their implementation of the related GASB Statement No. 45, are required to disclose additional information with regard to funding policy, the employer's annual OPEB costs and contributions made. Requirements to disclose the funded status and funding progress of the employer's plan and actuarial methods and assumptions used can be satisfied by referencing the Authority's financial statements each year.



New Mexico Retiree Health Care Authority

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE C – GASB NO. 43 IMPLEMENTATION – CONTINUED**

The following changes in assumptions were made for the year ended June 30, 2012:

This report was revised to incorporate an updated mortality, disability, turnover and salary scale and retirement assumptions were updated to reflect changes recommended in the most recent experience study.

Per capita costs and trends on these costs were updated.

**NOTE D – ACCRUED VACATION AND SICK LEAVE**

Accumulated vacation, compensating time and sick leave earned and not taken are recorded as an expense in the current year in accordance with GASB Statement No. 16. Vacation earned and not taken is cumulative; however, upon termination, vacation is limited to 240 hours (30 days). Sick pay accumulated in excess of 600 hours, not to exceed 120 hours, is payable semiannually to qualified employees at a rate equal to 50% of the employee's hourly wage. The total vacation and sick leave accrual at June 30, 2012 was \$63,167.

Balance as of June 30, 2011	Additions	Deletions	Balance as of June 30, 2012	Amount Due Within One Year
\$ 73,917	\$ 59,595	\$ 70,345	\$ 63,167	\$ 63,167

**NOTE E – PROPERTY AND EQUIPMENT**

A summary of furniture and equipment at June 30, 2012 is as follows:

CAPITAL ASSETS ROLLFORWARD				
Description	Balance at 6/30/2011	Additions	Deletions	Balance at 6/30/2012
Capital assets - furniture and equipment	\$ 139,506	\$ -	\$ -	\$ 139,506

ACCUMULATED DEPRECIATION ROLLFORWARD				
Description	Balance at 6/30/2011	Additions	Deletions	Balance at 6/30/2012
Accumulated depreciation	\$ (98,054)	\$ (10,177)	\$ -	\$ (108,231)

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE E – PROPERTY AND EQUIPMENT – CONTINUED**

Depreciation expense was \$10,177 for the year ended June 30, 2012. All depreciation was allocated to the administrative function.

**NOTE F – PENSION PLAN – PUBLIC EMPLOYEES RETIREMENT PLAN**

1. Plan Description

All of NMRHCA's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees' Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries.

PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, PO Box 2123, Santa Fe, New Mexico 87504-2123. That report is also available at [www.pera.state.nm.us](http://www.pera.state.nm.us).

2. Funding Policy

Plan members are required to contribute 10.67% (range from 3.83% to 16.65% depending upon the plan, i.e., State general, State hazardous duty, State police, municipal general, municipal police, municipal fire) of their gross pay. NMRHCA is required to contribute 13.34% (range from 7.0% to 25.72% depending upon the plan) of gross covered salary.

The contribution requirements of plan members and the NMRHCA are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the Legislature. NMRHCA's contribution to PERA for the years ended June 30, 2012, 2011 and 2010 was \$150,276, \$179,753, and \$195,981, respectively, equal to the amount of the required contributions for each fiscal year.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE G – RETIREE HEALTH CARE ACT PLAN**

NMRHCA’s plan is a multi-employer defined benefit health care plan established under the New Mexico Retiree Health Care Act (10-7C-1 to 10-7C-19, NMSA 1978).

Administrative Fund (38000): Created by 10-7C-16 NMSA 1978. The purpose of this fund is to provide administrative support to carry out the purpose of the Benefit Fund and the New Mexico Retiree Health Care Act. This fund is not financed by the general fund; it is financed and reverts to the Benefit Fund share 38100.

Benefit Fund (38100): Created by the New Mexico Retiree Health Care Act (10-7C-1 to 10-7C-19 NMSA 1978). The purpose of this fund is to provide core group and optional healthcare and life insurance benefits for current and future retirees and their dependents. See below for further explanation of the New Mexico Retiree Health Care Act.

The Act provides comprehensive core group health insurance for persons who have retired from public service in New Mexico. The purpose is to provide eligible retirees (including terminated employees who have accumulated benefits but are not yet receiving them), their spouses, dependents and surviving spouses and dependents with health insurance and prescription drug benefits consisting of a plan, or optional plans of benefits, that can be purchased by funds flowing into the Retiree Health Care Fund and by co-payments or out-of-pocket payments of eligible retirees. Employees of NMRHCA participate in the plan.

The post-employment benefit accrual basis revenues and expenses excluding IBNR balances relating to the approximately 30,662 retirees participating in the plan for the year ended June 30, 2012 consisted of:

Retiree/employer/employee contributions	\$ 212,814,511
Premiums and claims	<u>(227,200,526)</u>
Net expenditures	<u>\$ (14,386,015)</u>

Discount Prescription Drug Program (81000): Created by 10-7C-17 NMSA 1978. The purpose of this fund is to administer the discount prescription drug program. The purpose of the discount prescription drug program is to reduce the cost of prescription drugs for covered participants. This is a nonreverting fund.

Further information may be obtained from the New Mexico Retiree Health Care Authority at 4308 Carlisle, NE, Suite 104, Albuquerque, New Mexico 87107.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE H – POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN**

*Plan Description.* The New Mexico Retiree Health Care Authority (NMRHCA), as an employer, contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by NMRHCA. The NMRHCA provides healthcare insurance and prescription drug benefits to retired employees of participating employers, their spouses, dependents, and surviving spouses and dependents. The NMRHCA Board was established by the New Mexico Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during the period of time made contributions as a participant in NMRHCA plan on the person's behalf, unless that person retires before the employer's NMRHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The NMRHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

*Funding Policy.* The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the NMRHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service-based subsidy rate schedule for the medical, plus basic life plan, plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's NMRHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from NMRHCA or viewed on their website at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us).

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE H – POST-EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN – CONTINUED**

The New Mexico Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee’s annual salary; each participating employee was required to contribute .917% of their salary. In the fiscal year ending June 30, 2013, the contribution rates for employers and employees will rise as follows:

(1) For employees who are not members of an enhanced retirement plan, the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY13	2.000%	1.000%

(2) For employees who are members of an enhanced retirement plan (state police and adult correctional officer coverage plan 1; municipal police member coverage plans 3, 4, and 5; municipal fire member coverage plan 3, 4, and 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act [10-12B-1 NMSA 1978]), during the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 2.292% of each participating employee’s annual salary , and each participating employee was required to contribute 1.146% of their salary. In the fiscal year ending June 30, 2013, the contributions rates for both employees and employers will rise as follows:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY13	2.500%	1.250%

Employers joining the program after January 1, 1998 are required to make a surplus-amount contribution to the NMRHCA based on one of two formulas at agreed-upon intervals.

The NMRHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contribution are required to be remitted to the NMRHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico Legislature.

The NMRHCA’s contributions to the NMRHCA for the year ended June 30, 2012, 2011, and 2010 were \$20,547, \$19,699, and \$15,746, respectively, which equal the required contributions for each year.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE I – RESERVE FOR LOSSES AND LOSS ADJUSTMENTS**

The amount shown on the accompanying statement of plan net assets as reserve for losses and loss adjustment expenses is an actuarially calculated estimate of the ultimate costs of settling all incurred but not reported claims as of June 30, 2012, while the amount shown on the accompanying statement of changes in plan net assets as losses and loss adjustment expenses represents the change in this estimate during the year ended June 30, 2012. These reserves represent, in management’s opinion, the best estimate of the ultimate cost of settling all reported and unreported claims. There exists a range of variability around the best estimate of the ultimate cost of settling all unpaid claims. Accordingly, the amount reflected in the accompanying financial statements may not ultimately be the actual cost of settling all unpaid claims and the difference may be significant.

Reserve for losses and loss adjustments including current portion at June 30, are as follows:

	<u>Balance as of June 30, 2011</u>	<u>Balance as of June 30, 2012</u>	<u>Current Portion</u>
Estimated Claims Liability	<u>\$ 13,743,000</u>	<u>\$ 17,205,000</u>	<u>\$ 17,205,000</u>

The increase in the estimated claims liability or “incurred but not reported reserve” (IBNR reserve) of \$3,462,000 was almost entirely attributable to addition of prescription drug claims which were not previously measured and recorded. This was due to the change in prescription drug companies as of June 30, 2011. The most recent number represents liability for outstanding claims for services rendered prior to July 1, 2012 and paid after June 30, 2012.

**NOTE J – JOINT POWERS AGREEMENTS**

NMRHCA has entered into two joint powers agreements:

1. An agreement exists between NMRHCA and the New Mexico State Investment Council (NMSIC) under which, NMSIC acts as the investment manager of the Retiree Health Care Fund for NMRHCA and will invest NMRHCA’s long-term reserves and provide services in accordance with the guidelines provided in NMRHCA Investment Policy. The agreement was effective June 25, 1992, and continues in force until terminated by either party upon 30 days written notice to the other party. NMRHCA renewed the agreement effective December 8, 2011.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE J – JOINT POWERS AGREEMENTS – CONTINUED**

The funds under management are invested by NMSIC in accordance with the provision of NMSA 1978, Sections 6-8-1 through 6-8-16. Fees charged for investment services are netted from investment income provided by NMRHCA on a monthly basis.

NMRHCA policy determines the amount to invest with NMSIC. NMRHCA maintains ownership of all securities and cash balances on deposit in NMRHCA's accounts at the New Mexico State Treasurer's Office, the fiscal agent bank and the custodial bank. NMRHCA is responsible for all audits performed relating to its financial records, including all investment transactions.

2. An agreement exists among NMRHCA, New Mexico Public Schools Insurance Authority, Albuquerque Public Schools, and the State's Risk Management Division of the General Services Department (collectively, the Interagency Benefits Advisory Committee). The purpose is to authorize the parties to exercise their common powers to provide and administer health care insurance programs, and to implement the purposes of the Health Care Purchasing Act. Each agency acts as its own fiscal agent for cost purposes. The agreement was effective March 15, 1999, and continues in force until terminated by any party upon 90 days written notice to the other parties.

**NOTE K – INVESTMENTS**

NMRHCA maintains a joint powers agreement with the New Mexico State Investment Council to provide investment services in accordance with guidelines listed in NMRHCA's Investment Policy. NMRHCA monies are invested in accordance with the NMSA Section 6-8-9. NMSIC issues a separate, publicly available financial report that includes financial statements and required supplementary information.

NMRHCA follows the Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which establishes fair value standards for certain investments held by governmental entities and external investment pools.

Investments are stated at fair value, which is based upon NMRHCA's share of NMSIC's pooled investments which are stated at fair value based upon quoted market prices plus accrued interest and dividends. Information relating to NMSIC's use of derivatives is not made available to NMRHCA. NMRHCA's investments were divided into pooled investments as follows at June 30, 2012:

New Mexico Retiree Health Care Authority

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE K – INVESTMENTS – CONTINUED**

	<u>Fair Value</u>	<u>Units</u>
Fixed income core bonds	\$ 86,755,599	32,948
Non US equities	31,909,576	27,344
Emerging markets	27,067,713	6,526
Large cap	31,331,006	12,381
Large cap index	30,037,992	17,262
Mid/small cap	<u>22,532,434</u>	11,545
 Total	 <u><u>\$ 229,634,320</u></u>	

The equity funds invest in United States and foreign corporate stocks. The fixed income fund invests in U.S. Treasury notes and bonds, bonds of other government agencies and corporate bonds. The calculation of the net increase in the fair value of investments is as follows for the year ended June 30, 2012:

Fair value as of June 30, 2011	\$ 213,379,925
Add: Contributions	21,060,000
Add: Net market increases during fiscal year 2012	(4,805,605)
Less: Withdrawals	<u>-</u>
 Fair value as of June 30, 2012	 <u><u>\$ 229,634,320</u></u>

The Authority has adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, which amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements*. However, it has no cash accounts except for a lock box arrangement for which deposits are transferred daily to the State Treasurer.

At the request of the Authority, the State Investment Council provided the investment fees of \$226,335 charged during the year ending June 30, 2012. Such fees are deducted from the ending investment account balance on a monthly basis in accordance with the joint powers agreement (See Note J).



New Mexico Retiree Health Care Authority

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE L – INVESTMENTS, STATE TREASURER**

Investments of the Authority consist of its interest in the State Treasurer General Fund Investment Pool (GFIP), which is managed by the New Mexico State Treasurer. The fair value of the investments maintained at the New Mexico State Treasurer’s Office at June 30, 2012 is as follows:

Fund	SHARE Fund No.	Fair Value June 30, 2012
Benefits Fund	38100	\$ 9,694,280
Administrative Fund	38000	181,829
Discount Prescription Fund	81000	<u>16,888</u>
		<u>\$ 9,892,997</u>

See also Notes X and Y for more information on the GFIP at June 30, 2012.

**NOTE M – PENSION TAX REVENUE AND PENSION TAX RECEIVABLE**

Revenue is transferred from the New Mexico Taxation and Revenue Department in accordance with NMSA 1978, Section 7-1-6.30 and NMSA 1978, Section 7-1-6.56.

Transfers from the NM Taxation and Revenue Suspense Fund are based on an additional amount of \$3,000,000 per year with a 12% per annum increase of carryforward contribution amounts beginning July 1, 2002. Monies are transferred on the month following the month due and any amount due to NMRHCA that is not received by June 30 is accrued. All amounts accrued are received by NMRHCA after year-end. For the year ended June 30, 2012, the total revenue was \$19,686,303.

**NOTE N – OPTIONAL COVERAGES**

Beginning September 1, 1993, NMRHCA offered eligible retirees voluntary coverages: two dental plans, a vision plan, and supplemental life. The plans are a pay-all basis by the retiree, whereby the retiree pays monthly for the entire premium for any optional coverages opted for and NMRHCA in turn pays the optional plan provider the monies collected from the retiree. Therefore, the revenue generated through the collection of optional premium dollars by NMRHCA is a direct dollar-for-dollar pass through to the providers of optional coverages. Revenues are recorded as retiree contributions and expenses are recorded as premiums in the financial statements.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE O – COMMITMENTS AND CONTINGENCIES**

1. Legal Proceedings

NMRHCA is subject to various legal proceedings, claims and liabilities that arise in the ordinary course of the operations, including personnel matters. In the opinion of NMRHCA management and legal counsel, the ultimate resolution of such matters will not have material adverse impact on the financial position or results of operations of NMRHCA.

2. Risk Management

NMRHCA is exposed to various risks of loss for which NMRHCA carries insurance (Auto; Employee Fidelity Bond; General Liability; Civil Rights and Foreign Jurisdiction; Money and Securities; Property; and Workers' Compensation) with the State of New Mexico Risk Management Division (RMD). The Authority pays premiums to participate in the State Insurance Program. Coverages are designed to satisfy the requirements of the State tort claims. Also, any claims are processed through RMD. There are no pending or threatened legal proceedings at year-end.

3. Lease Agreements

NMRHCA's main office leases its building at 4308 Carlisle NE in Albuquerque. The space on Carlisle is leased for a 10-year period ending September 2020 with an option to renew for an additional 10 years. In Santa Fe, the Authority leases an office building at 810 San Mateo. The Authority exercised the option to renew for an additional 5 years, resulting in a term date of September 30, 2015. The Authority has a 4-year equipment lease for two mailing machines ending October 30, 2015 and August 30, 2016. The Authority has a 4-year copier lease for two machines ending December 15, 2014 and June 30, 2015. The Authority also leases storage space. All leases are operating leases. The 5-year lease and subsequent commitment under these leases is as follows:

Years ending June 30,

2013	\$	194,589
2014		194,849
2015		190,908
2016		159,087
2017		147,768
Thereafter		<u>365,688</u>
	\$	<u>1,252,889</u>

Total lease expense for 2012 is \$185,166.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE P – OPERATING TRANSFERS**

The following operating transfers occurred between the NMRHCA functional activities during the year ended June 30, 2012:

	Benefits 38100 <u>From (To)</u>	Administration 38000 <u>From (To)</u>
Total appropriations	\$ 2,664,200	\$ (2,664,200)
Reversion	<u>(294,950)</u>	<u>294,950</u>
	<u>\$ 2,369,250</u>	<u>\$ (2,369,250)</u>

The purpose of the transfers was to fund appropriations, to revert unused appropriations between funds, and was made on a routine basis.

**NOTE Q – APPROPRIATIONS, BUDGET ADJUSTMENTS AND REVERSIONS**

NMRHCA submits annually for approval an Administrative Budget Request as part of the operating budget. The Department of Finance and Administration and the Legislative Finance Committee (LFC) reviews the request and the Legislature takes action to approve and/or amend the Authority administrative request. Appropriated amounts are then transferred into the Administrative Fund from the Benefits Funds. An annual State General Fund Appropriation is typically awarded to the Discount Prescription Drug Program Fund as well. Unused appropriations from the Benefits Fund to the Administration Fund, if any, revert back to the Benefits Fund, but unused appropriations from the State General Fund to the Discount Prescription Drug Program Fund do not revert back to the State General Fund per 10-7C-18 NMSA 1978.

NMRHCA recorded a \$2,369,250 appropriation from the Benefits Fund to the Administration Fund for Fiscal Year 2012 (Laws 2011, Chapter 179, Section 4). An amount of \$294,950 is accrued for reversion for Fiscal Year 2012 to the Benefits Fund. No State General Fund appropriation was made to the Discount Prescription Drug Program for fiscal year 2012 (Laws 2011, Chapter 179, Section 4). The Discount Prescription Drug Card program is non-reverting fund. The appropriation and the reversion are recorded as operating transfers. See Note P.

New Mexico Retiree Health Care Authority

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE R – ACCOUNTS RECEIVABLE**

The Authority receives contributions monthly from employers who remit the employer portion and the employee portion withheld from employees. Contributions are statutory, based on the number of employees reported by each employer for the month. Because the number of employees can change in any month, the Authority does not bill employers. The Authority depends on monthly reporting and contributions from employers. Accounts receivable also includes amounts to be received for Medicare Part D. There is no allowance for uncollectible receivables recorded at June 30, 2012, as management deems any uncollectible amounts as immaterial.

**NOTE S – BUY-IN OBLIGATION RECEIVABLE**

As of June 30, 2012, buy-in receivables include the following:

City of Rio Rancho	\$	643,747
County of Lincoln		148,687
City of Bloomfield		84,876
City of Espanola		82,613
City of Portales		23,552
Village of Melrose		<u>1,030</u>
	\$	<u>984,505</u>

These obligations are receivable monthly over 13 years at 7.5% interest. The current and long-term portions are as follow:

Current portion	\$	218,837
Long-term		<u>765,668</u>
	\$	<u>984,505</u>

**NOTE T – LEGALLY REQUIRED RESERVES**

There is no stated monetary reserve requirement. Under Section 10-7C-8, the Board of the Authority is charged with determining what is to make up the long-term reserves. Those long-term reserves are to be placed in investments pursuant to Section 6-8-1 through 6-8-16 NMSA 1978.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE U – SUBSEQUENT EVENTS**

Subsequent events have been evaluated through November 21, 2012 to determine whether such events should be recorded or disclosed in the financial statements for the year ended June 30, 2012. Management believes no material subsequent events have arisen that would require adjustment or disclosure.

**NOTE V – FEDERAL AWARDS**

During February 2011, the Authority was awarded and received \$5,915,300 for which it was eligible under the Affordable Health Care Act of 2010 (ObamaCare). Prior to 2012, none of the cash received was spent and as such was recorded as deferred revenue.

The program's purpose was to provide a one-time premium holiday payment to individuals prior to eligibility of Medicare or Medicaid. The federal grantor was the U.S. Department of Health and Human Services and the program title was the Early Retiree Reinsurance Program within Federal CFDA Number 93.546, which was exempt from the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The funds must be expended by 2014 and \$3,354,339 was expended during the year ended June 30, 2012 resulting in a remaining balance of \$2,560,961 in deferred revenue. Management expects to expend all remaining amounts in a timely manner.

**NOTE W – NEW ACCOUNTING STANDARDS**

The Governmental Accounting Standards Board (GASB) has published statements No. 67, *Financial Reporting for Pension Plans* and No. 68, *Accounting and Financial Reporting for Pensions*. These standards revise existing guidance for governments that provide their employees with pension benefits. A principal change is the requirement to record the government's pro rata share of unfunded actuarial accrued liability (UAAL) on its financial statements for members of multiemployer cost sharing plans. The Authority is a participating member of the Public Employees Retirement Association (PERA), a multiemployer cost sharing plan. See Note F. Other changes arising from these statements are significant and the Authority will comply with these changes as information for implementation is provided by PERA and the State of New Mexico. The implementation date for statement No. 68, most relevant to the Authority is for FY 2015. The current status of the unfunded liability for PERA is \$4.97 billion based on the most recently issued audited financial statement at June 30, 2011.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE X – GENERAL FUND INVESTMENT POOL NOT RECONCILED**

By statute, the Department of Finance & Administration is responsible for reconciling the State General Fund Investment Pool. In June 2012, an independent expert diagnostic report revealed that the General Fund Investment Pool balances have not been reconciled at the business unit/fund level since the inception of the Statewide Human Resources, Accounting, and Management Reporting system (SHARE) in July of 2006. The Diagnostic report is available in the Resources section of the Cash Control page of the New Mexico Department of Finance & Administration's website at: [http://www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://www.nmdfa.state.nm.us/Cash_Control.aspx). The document title is Current State Diagnostic of Cash Control.

The General Fund Investment Pool is the State of New Mexico's main operating account. State revenues such as income taxes, sales taxes, rents and royalties, and other recurring revenues are credited to the General Fund Investment Pool. The fund also comprises numerous State agency accounts whose assets, by statute (Section 8-6-3 NMSA 1978), must be held at the State Treasury. Per Statute 6-5-2.1(J) NMSA 1978, DFA must reconcile the operating account on a monthly basis.

As of June 30, 2012, the General Fund Investment Pool has not been reconciled at the business unit/fund level by the Department of Finance & Administration. Essentially independent, third-party verification/confirmation of the Authority's balances at the business unit/fund level is not possible.

The Department of Finance & Administration has provided the information in the following paragraphs in relation to remedial actions for this issue and expected timing.

Under the direction of the State Controller/Financial Control Division Director, the Financial Control Division of the New Mexico Department of Finance & Administration (DFA/FCD) is taking aggressive action to resolve this serious problem. DFA/FCD has commenced the Cash Management Remediation Project (Remediation Project) in partnership with the New Mexico State Treasurer's Office, the New Mexico Department of Information Technology, and a contracted third party PeopleSoft Treasury expert.

The purpose of the Remediation Project is to design and implement the changes necessary to reconcile the General Fund Investment Pool in a manner that is complete, accurate, and timely. The Remediation Project will make changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. The scheduled implementation date for the changes associated with the Remediation Project is February 1, 2013. An approach and plan to address the population of historical reconciling items will be developed during the Remediation Project, but a separate initiative will be undertaken to resolve the historical reconciling items.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2012

**NOTE X – GENERAL FUND INVESTMENT POOL NOT RECONCILED – CONTINUED**

The initial phase of the Remediation Project, completed on October 11, 2012, focused on developing a project plan and documenting current statewide business processes. The work product of the initial phase of the Remediation Project is a document entitled Cash Management Plan and Business Processes. This document is available on the Cash Control page of the New Mexico Department of Finance & Administration's website at: [http://www.nmdfa.state.nm.us/Cash\\_Control.aspx](http://www.nmdfa.state.nm.us/Cash_Control.aspx).

**NOTE Y – INTEREST IN THE GENERAL FUND INVESTMENT POOL**

State law (Section 8-6-3 NMSA 1978) requires the Authority's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Authority consist of an interest in the General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

At June 30, 2012, the Authority had the following invested in the General Fund Investment Pool (GFIP):

General Fund Investment Pool \$9,892,997.

GFIP Balance Concern - The circumstances recorded in Note X raise a concern regarding the accuracy of the Authority's share of the GFIP. Due to the fiduciary and specialized nature of the Authority, a supplementary system of the general ledger accrued account balances, including GFIP balances have been maintained and reconciled to SHARE since the inception of SHARE for all deposits received by the Authority. Additionally, a large percentage of the Authority's disbursements are made by wire transfer in larger amounts to contractors and to the investment custodian, which are validated during the year. The Authority's administrative fund is reverting, which does not permit a carryover balance from year to year. All such reversions have been audited from the inception of SHARE. For these reasons, the Authority believes the GFIP balance value of \$9,892,997 materially approximates their share of the GFIP at June 30, 2012. Any adjustments to the GFIP balance that might exist at June 30, 2012 are not known at this time.

Interest Rate Risk - The New Mexico State Treasurer's Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is a means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit risk - The New Mexico State Treasurer pools are not rated.

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2012.

**REQUIRED SUPPLEMENTARY INFORMATION**



New Mexico Retiree Health Care Authority

**SCHEDULE OF FUNDING PROGRESS (UNAUDITED)**

June 30, 2012

**SCHEDULE OF FUNDING PROGRESS**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded/ (Overfunded) AAL (UAAL) (b)-(a)</b>	<b>Funded Ratio (a)/(b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]</b>
June 30, 2006	\$ 154,538,668	\$ 4,264,180,967	\$ 4,109,642,299	3.62%	\$ 4,073,731,873	101%
June 30, 2008	170,626,271	3,116,915,900	2,946,289,629	5.47%	4,020,508,902	73%
June 30, 2010	176,922,935	3,523,664,871	3,346,741,936	5.02%	4,001,802,240	84%
June 30, 2012	227,487,895	3,915,114,104	3,687,626,209	5.81%	3,877,827,061	95%
<b>Valuation date</b>	June 30, 2012					
<b>Actuarial cost method</b>	Entry age normal, level percent of pay					
<b>Amortization method</b>	30-year open-ended amortization, with the initial payment determined as if future payments would theoretically increase each year on a level percent of pay basis					
<b>Remaining amortization period</b>	30 years as of June 30, 2012					
<b>Asset valuation method</b>	The actuarial value of assets is the market value of assets					
<b>Actuarial assumptions:</b>						
<b>Discount rate</b>	5.00%					
<b>Projected payroll increases</b>	4.00%					
<b>Health care cost trend rate:</b>						
<b>Prescription drug &amp; medical (under age 65, age 65 and over)</b>	8% from July 1, 2009 to July 1, 2018, decreasing by 0.5% for each year until it reaches an unlimited rate of 5%					
<b>Note</b>	Schedule of funding progress is based on healthcare laws and regulations existing at June 30, 2012.					

**FACTORS AFFECTING AMOUNTS AND TRENDS REPORTED**

The fourth actuarial study based on GASB 43 requirements has been completed and increases are reported for the year ended June 30, 2012 in the UAAL and ARC. Factors in these reported increases are as follows:

Both the UAAL and the ARC are slightly higher than the 2010 evaluation. An underlying reason for this is that a majority of PERA and ERB active employees have incurred an additional two years of service credit and the baseline of health care costs used to project liabilities forward has increased since 2010. Also, a significant portion additional liability is the result of interest accrued on the \$3.3 billion unfunded liability from 2010.

New Mexico Retiree Health Care Authority

**SCHEDULE OF CONTRIBUTIONS FROM EMPLOYERS  
AND OTHER CONTRIBUTING ENTITIES (UNAUDITED)**

June 30, 2012

<b>Plan Year Beginning</b>	<b>Annual Required Contributions</b>	<b>Actual Contributions Employers</b>	<b>Percentage Contributed</b>
July 1, 2006	\$ 392,591,254	\$ 82,703,326	21.1%
July 1, 2007	275,517,523	94,224,026	34.2%
July 1, 2008	286,538,244	96,816,528	33.8%
July 1, 2009	297,999,753	112,079,300	37.6%
July 1, 2010	309,919,743	105,624,100	34.1%
July 1, 2011	353,657,828	135,388,449	29.4%

## **SUPPLEMENTARY INFORMATION**

## New Mexico Retiree Health Care Authority

## COMBINING SCHEDULE OF PLAN NET ASSETS BY FUNCTIONAL ACTIVITY

June 30, 2012

	Benefits - 38100	Administration - 38000	Discount Prescription - 81000	Eliminations	Total
<b>ASSETS</b>					
Short-term investments with State Treasurer	\$ 9,694,280	\$ 181,829	\$ 16,888	\$ -	\$ 9,892,997
Receivables					
Accounts receivable - employers, employees and participants	10,993,363	681	-	-	10,994,044
Accounts receivable - rebates and Medicare Part D	2,018,305	-	-	-	2,018,305
Buy-in obligation receivable	984,505	-	-	-	984,505
Pension tax receivable	1,640,525	-	-	-	1,640,525
Due from other governments	2,509	90	-	-	2,599
Due from other funds	294,950	-	-	(294,950)	-
Total receivables	15,934,157	771	-	(294,950)	15,639,978
Prepaid expenses	-	614	-	-	614
Long-term investments with State Investment Council					
Fixed income core bonds	86,266,256	489,343	-	-	86,755,599
Non US equities	31,729,591	179,985	-	-	31,909,576
Large cap - active	31,154,284	176,722	-	-	31,331,006
Large cap index	29,868,563	169,429	-	-	30,037,992
Emerging markets	26,915,038	152,675	-	-	27,067,713
Mid/small cap	22,405,340	127,094	-	-	22,532,434
Total investments	228,339,072	1,295,248	-	-	229,634,320
Capital assets					
Equipment and furniture	-	139,506	-	-	139,506
Less accumulated depreciation	-	(108,231)	-	-	(108,231)
Total capital assets	-	31,275	-	-	31,275
Total assets	<u>\$ 253,967,509</u>	<u>\$ 1,509,737</u>	<u>\$ 16,888</u>	<u>\$ (294,950)</u>	<u>\$ 255,199,184</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 11,462,900	\$ 81,040	\$ -	\$ -	\$ 11,543,940
Due to other funds	-	294,950	-	(294,950)	-
Payroll liabilities	-	56,512	-	-	56,512
Compensated absences	-	63,167	-	-	63,167
Deferred revenue	2,960,694	-	-	-	2,960,694
Reserve for loss and loss adjustment expense	17,205,000	-	-	-	17,205,000
Total liabilities	31,628,594	495,669	-	(294,950)	31,829,313
PLAN NET ASSETS	<u>222,338,915</u>	<u>1,014,068</u>	<u>16,888</u>	<u>-</u>	<u>223,369,871</u>
Total liabilities and plan net assets	<u>\$ 253,967,509</u>	<u>\$ 1,509,737</u>	<u>\$ 16,888</u>	<u>\$ (294,950)</u>	<u>\$ 255,199,184</u>

## New Mexico Retiree Health Care Authority

**COMBINING SCHEDULE OF CHANGES IN PLAN NET ASSETS  
BY FUNCTIONAL ACTIVITY**

For the year ended June 30, 2012

	<u>Benefits - 38100</u>	<u>Administration - 38000</u>	<u>Discount Prescription - 81000</u>	<u>Eliminations</u>	<u>Total</u>
<b>ADDITIONS</b>					
Contributions					
Retiree	\$ 103,730,561	\$ -	\$ -	\$ -	\$ 103,730,561
Employer/employee	109,083,950	-	-	-	109,083,950
Employer buy-ins interest portion	85,674	-	-	-	85,674
Total contributions	212,900,185	-	-	-	212,900,185
Investment earnings					
Interest	29,758	1,056	-	-	30,814
Net decrease in fair value of investments	(4,778,499)	(27,106)	-	-	(4,805,605)
Total net investment earnings	(4,748,741)	(26,050)	-	-	(4,774,791)
Other additions					
Pension tax revenue	19,686,303	-	-	-	19,686,303
Medicare Part D and rebates	11,651,288	216	-	-	11,651,504
Federal grants	3,355,344	-	-	-	3,355,344
Subrogation, refunds and miscellaneous	214,690	-	-	-	214,690
Total other additions	34,907,625	216	-	-	34,907,841
Total additions	243,059,069	(25,834)	-	-	243,033,235
<b>DEDUCTIONS</b>					
Premiums and claims	227,200,526	-	-	-	227,200,526
General and administrative expenses	4,950	2,369,250	-	-	2,374,200
Depreciation	-	10,177	-	-	10,177
Losses and loss adjustment expenses	3,462,000	-	-	-	3,462,000
Total deductions	230,667,476	2,379,427	-	-	233,046,903
Transfer (out) in, net of reversion	(2,369,250)	2,369,250	-	-	-
Change in plan net assets	10,022,343	(36,011)	-	-	9,986,332
Plan net assets, beginning of year	212,316,572	1,050,079	16,888	-	213,383,539
Plan net assets, end of year	\$ 222,338,915	\$ 1,014,068	\$ 16,888	\$ -	\$ 223,369,871

## New Mexico Retiree Health Care Authority

**SCHEDULE OF REVENUES AND EXPENSES –  
BUDGET AND ACTUAL (ACCRUAL BUDGET BASIS)**

For the year ended June 30, 2012

	Fund 38100			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
Retiree contributions	\$ 97,639,900	\$ 97,639,900	\$ 103,730,561	\$ 6,090,661
Employer/employee contributions	100,299,200	100,299,200	109,170,847	8,871,647
Pension taxes	19,686,300	19,686,300	19,686,303	3
Investment income	28,000	28,000	29,758	1,758
Miscellaneous revenue	19,288,800	19,288,800	11,865,978	(7,422,822)
Federal grants	-	-	3,355,344	3,355,344
<b>Total revenues</b>	<b>236,942,200</b>	<b>236,942,200</b>	<b>247,838,791</b>	<b>10,896,591</b>
<b>NET ASSET BALANCE BUDGETED</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EXPENSES</b>				
Personal services/employee benefits	-	-	-	-
Contractual services	234,278,000	234,278,000	227,205,476	7,072,524
<b>Total expenses</b>	<b>234,278,000</b>	<b>234,278,000</b>	<b>227,205,476</b>	<b>7,072,524</b>
<b>TRANSFERS</b>				
Transfers in - Intra agency from SHARE 38000	-	-	294,950	294,950
Transfers out - Intra agency to SHARE 38000	(2,664,200)	(2,664,200)	(2,664,200)	-
<b>Total transfers</b>	<b>\$ (2,664,200)</b>	<b>\$ (2,664,200)</b>	<b>(2,369,250)</b>	<b>\$ 294,950</b>
Net change in net assets			18,264,065	
Loss on investments excluding interest			(4,778,499)	
Change in IBNR liability			(3,462,000)	
Miscellaneous			(1,223)	
<b>Change in plan net assets, GAAP basis</b>			<b>\$ 10,022,343</b>	

## New Mexico Retiree Health Care Authority

**SCHEDULE OF REVENUES AND EXPENSES –  
BUDGET AND ACTUAL (ACCRUAL BUDGET BASIS) – CONTINUED**

For the year ended June 30, 2012

	Fund 38000			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
Employer/employee contributions	\$ -	\$ -	\$ -	\$ -
Pension taxes	-	-	-	-
Investment income	-	-	1,056	1,056
Other financial sources	-	-	216	216
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>1,272</b>	<b>1,272</b>
<b>EXPENSES</b>				
Personal services/employee benefits	1,678,400	1,678,400	1,571,802	106,598
Contractual services	477,700	477,700	316,046	161,654
Other financial uses	508,100	-	-	-
Other	-	508,100	481,402	26,698
<b>Total expenses</b>	<b>2,664,200</b>	<b>2,664,200</b>	<b>2,369,250</b>	<b>294,950</b>
<b>TRANSFERS</b>				
Transfers in - Intra agency from SHARE 38100	2,664,200	2,664,200	2,664,200	-
Transfers out - Intra agency to SHARE 38100	-	-	(294,950)	294,950
<b>Total transfers</b>	<b>\$ 2,664,200</b>	<b>\$ 2,664,200</b>	<b>2,369,250</b>	<b>\$ 294,950</b>
Net change in net assets			1,272	
Loss on investments excluding interest			(27,106)	
Depreciation			(10,177)	
<b>Change in plan net assets, GAAP basis</b>			<b>\$ (36,011)</b>	

New Mexico Retiree Health Care Authority

**SCHEDULE OF REVENUES AND EXPENSES –  
BUDGET AND ACTUAL (ACCRUAL BUDGET BASIS) – CONTINUED**

For the year ended June 30, 2012

	Fund 81000			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>				
Employer/employee contributions	\$ -	\$ -	\$ -	\$ -
Pension taxes	-	-	-	-
Investment income	-	-	-	-
General fund appropriation	-	-	-	-
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>EXPENSES</b>				
Personal services/employee benefits	-	-	-	-
Contractual services	-	-	-	-
Other financial uses	-	-	-	-
Other	-	-	-	-
<b>Total expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>	<b>\$ -</b>
Net change in net assets			-	
State general fund reversion expense			-	
Change in plan net assets, GAAP basis			<u>\$ -</u>	

This fund was not budgeted for FY12



## **OTHER SUPPLEMENTARY INFORMATION**

## New Mexico Retiree Health Care Authority

**COMBINING SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES  
BY FUNCTIONAL ACTIVITY**

For the year ended June 30, 2012

	Benefits - 38100	Administration - 38000	Discount Prescription - 81000	Total
GENERAL AND ADMINISTRATIVE EXPENSES				
Personal services	\$ -	\$ 1,115,584	\$ -	\$ 1,115,584
Employee benefits	-	456,218	-	456,218
Contractual services	-	320,996	-	320,996
Operating costs	-	380,486	-	380,486
Supplies	-	32,386	-	32,386
In-state travel	-	44,841	-	44,841
Repairs and maintenance	-	22,561	-	22,561
Out-of-state travel	-	1,128	-	1,128
 Total	 \$ -	 \$ 2,374,200	 \$ -	 \$ 2,374,200

New Mexico Retiree Health Care Authority

**COMBINING SCHEDULE OF SHORT-TERM INVESTMENTS**

For the year ended June 30, 2012

	Benefits - 38100	Administration - 38000	Discount Prescription - 81000	Total
Investment balances per DFA-				
New Mexico State Treasurer				
Share Fund 34300-38000	\$ -	\$ 181,829	\$ -	\$ 181,829
Share Fund 34300-38100	9,694,280	-	-	9,694,280
Share Fund 34300-83600	-	-	-	-
Share Fund 34300-81000	-	-	16,888	16,888
Reconciling items - none	-	-	-	-
	<u>\$ 9,694,280</u>	<u>\$ 181,829</u>	<u>\$ 16,888</u>	<u>\$ 9,892,997</u>

Please see Note X for more information.

## New Mexico Retiree Health Care Authority

**SCHEDULE OF APPROPRIATIONS**

For the year ended June 30, 2012

Description	Authority	Appropriation Period	Share Fund	Total Appropriation	Current Year Expenditures	Current Year Reversion Amount
Program support for Administrative Fund	Laws 2011 House Bill 2, Chapter 179 Section 4	2012	38000	\$ 2,664,200	\$ 2,369,250	\$ 294,950

According to 10-7C-16 NMSA 1978, funds to administer the New Mexico Retiree Health Care Act are to be made by an operating budget adopted by the Board, adopted by the State Budget Division, and pursuant to appropriation by the Legislature. The appropriated amounts to SHARE Fund 38000 are recorded as transfers between Benefit Fund (38100) and the Administrative Fund (38000). See Note P. The appropriated amount for the Discount Prescription Fund (81000) is a State General Fund appropriation and is recorded as such.



CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

ATKINSON & CO. LTD.  
6501 AMERICAS PKWY NE  
SUITE 700  
ALBUQUERQUE, NM 87110

T 505 843 6492  
F 505 843 6817

ATKINSONCPA.COM

PO BOX 25246  
ALBUQUERQUE, NM 87125

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Mr. Hector H. Balderas  
New Mexico State Auditor  
and  
The Board of Directors  
New Mexico Retiree Health Care Authority  
Albuquerque and Santa Fe, New Mexico

We have audited the accompanying Statement of Plan Net Assets and Statement of Changes in Plan Net Assets of the New Mexico Retiree Health Care Authority (NMRHCA or the Authority) as of and for the year ended June 30, 2012 as listed in the table of contents. We have also audited the Combining Schedule of Plan Net Assets by Functional Activity and Changes in Plan Net Assets by Functional Activity and the Schedules of Revenues and Expenses – Budget and Actual presented as supplementary information as of and for the year ended June 30, 2012 as listed in the table of contents, and have issued our report thereon dated November 21, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of NMRHCA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

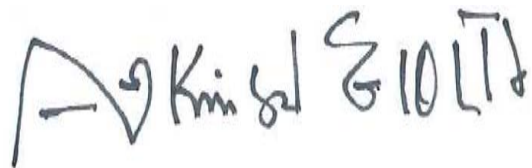
#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

We noted a certain matter that is required to be reported under *Government Auditing Standards*, paragraph 5.14 and 5.16 and Section 12-6-5 NMSA 1978 which are described in the accompanying Schedule of Findings and Responses as finding 10-01.

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the Authority, the Audit Committee, the Office of the State Auditor, the New Mexico Legislature, and the Department of Finance and Administration and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in blue ink, appearing to read "King & Co. Ltd.", with a stylized logo to the left consisting of a large 'A' and a checkmark-like shape.

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
November 21, 2012

**SCHEDULE OF FINDINGS AND RESPONSES**

June 30, 2012

**FINANCIAL STATEMENTS**

Type of auditor's report issued: Unqualified

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

Material weaknesses identified? No

Significant deficiencies identified not considered  
to be material weaknesses? No

**COMPLIANCE AND OTHER MATTERS**

Noncompliance material to the financial statements noted? No

**FINANCIAL STATEMENT FINDINGS**

None

**FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC**

10-01 Timely remittance of deposits – Repeated and modified

**RESOLUTION OF PRIOR YEAR FINDINGS**

10-01 Timely remittance of deposits – Repeated and modified

**SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED**

June 30, 2012

**CURRENT YEAR AUDIT FINDINGS**

**FINDINGS IN ACCORDANCE WITH 2.2.2. NMAC**

**10-01 TIMELY REMITTANCE OF DEPOSITS**

Condition

The Authority receives checks, cashier's checks and money orders from various entities and individuals related to premiums, rebates, and fees received from customers on a walk-in basis. In 2 out of 20 items tested, the Authority made the deposit past the succeeding business day from the receipt of the monies. Generally, all out of compliance deposits were made within 2 to 3 days after receipt as opposed to within the 24 hour rule.

Criteria

According to 6-10-3 NMSA 1978, State agencies receiving money in cash or by check, draft or otherwise for or on behalf of the State or agency are required before the close of the next succeeding business day after the receipt of the money to deliver or remit it to the State Treasurer.

Cause

These untimely deposits are a residual effect before correcting the finding in the fiscal year 2011 financial statements. Since the finding was discovered and brought to management's attention, deposits appear to have been made timely indicating the Authority has corrected its process for making deposits in a timely manner according state statutes.

Effect

The Authority was not in compliance with New Mexico State Statutes for a portion of the year.

Recommendation

The Authority should take the necessary steps to ensure that monies received are deposited within the time requirements as noted in New Mexico State Statutes.

Management's Response

Management agrees with the finding. We understand that it is a statutory requirement that all checks received be deposited within the next succeeding business day. Management first became aware of this audit finding during the 2nd quarter of fiscal year 2011 and implemented the necessary procedures to ensure that all deposits were made in accordance with statute. We believe that exceptions noted by the auditors were from the earliest part of fiscal year 2012 before procedures were implemented.



New Mexico Retiree Health Care Authority

**EXIT CONFERENCE**

June 30, 2012

An exit conference was held on November 27, 2012, with the following in attendance:

**NM Retiree Health Care Authority  
Personnel and Board Members**

Alfredo Santistevan, Chairman,  
Board of Directors

Jan Goodwin, Chairperson,  
Audit Committee

Joe Montano, Secretary (by telephone)

Mark Tyndall, Executive Director

**Atkinson & Co., Ltd.  
Personnel**

Martin Mathisen, CPA, CGFM,  
Audit Director

David Thomas, CPA  
Audit Senior Accountant

The basic financial statements have been prepared by Atkinson & Co., Ltd. with assistance from the New Mexico Retiree Healthcare Authority, who is responsible for their content.

ATKINSON & CO. LTD.  
CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

ALBUQUERQUE, NM  
T 505 843 6492  
F 505 843 6817

RIO RANCHO, NM  
T 505 891 8111  
F 505 891 9169

[ATKINSONCPA.COM](http://ATKINSONCPA.COM)

